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C O N F I D E N T I A L SECTION 01 OF 02 RANGOON 000190

SIPDIS

STATE FOR EAP/BCLTV, EB  
BANGKOK FOR CUSTOMS  
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USPACOM FOR FPA

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TAGS: [ETRD](#) [ECON](#) [KTEX](#) [PREL](#) [BM](#)  
SUBJECT: BURMA'S GARMENT SECTOR: SAVED BY THE TAX

REF: A. 04 RANGOON 1294 AND PREVIOUS  
[B](#). 04 RANGOON 768  
[C](#). 04 BEIJING 19735

Classified By: COM CARMEN MARTINEZ FOR REASONS 1.4 (B,D)

[1](#)1. (SBU) Summary: All but in the grave, Burma's garment sector has been kept alive -- barely -- by China's decision to impose an export tax on its garments. Though no new hires or re-opened factories are likely, the manufacturers expect to maintain the status quo in the short term thanks to orders from the EU and Latin America spilling over from China -- and possibly transshipment to the United States. The sustainability of this situation is uncertain, and totally dependent on outside forces as the GOB continues to do nothing to make Burma's industries competitive on anything but labor costs. End summary.

#### Export Tax Opens Up Niche

[1](#)2. (SBU) The December 2004 decision by the PRC government to impose an export tax on some of its garment exporters (ref C) has given the breathing room necessary for the Burmese industry to stay above water. According to two senior members of the Garment Manufacturers Association (GMA), this policy, which coincided with the end of the Multi-Fiber Agreement on January 1st, will allow Burma to remain competitive in the manufacture of some types of low-value garments. They also claim that a perceived increased focus by Chinese manufacturers on large-scale U.S. orders has allowed Burmese factories to keep most of their smaller EU customers -- and even add some new orders from Argentina.

[1](#)3. (SBU) None of this is to say the industry is set for revival after suffering a severe blow from a U.S. import ban imposed in 2003 (ref A). The Burmese manufacturers told us in no uncertain terms that the new and recurrent EU and South American orders were quite small, low margin, and unlikely to increase much no matter what happened in China. Neither foresaw new hires or re-opening of shuttered factories. However, the current situation should be enough to keep the 100 or so remaining garment factories, and their 50,000-60,000 workers, open for the immediate future.

[1](#)4. (SBU) One of the officials said he is also watching India very carefully to see if the GOI follows suit and applies an export tax to some of India's garment exports. If this occurs, the current stability in Burma would be more sustainable. He said he was also watching the EU, as any European move to restrict imports would certainly sound the death knell for the crippled industry.

#### Evidence of Sanctions Evasion Evasive

[1](#)5. (C) Messages were mixed on transshipment of garments to evade U.S. sanctions. One manufacturer told us that some foreign JV factories in Burma were shipping unlabeled, but otherwise finished, product to Thailand as "unfinished garments." The Thai factory was then adding labels and shipping the garments to the United States. He said he wasn't sure of the names of the Thai factories facilitating this. We note this is the second time we've heard a specific account of transshipment of Burmese garments through Thailand (ref B). The other GMA official (whom we met separately) told us he had not heard of any such activity occurring. In any event, the amount transshipped is likely tiny compared to pre-sanctions volumes. Our source told us he thought about 10,000 dozen/month were going illegally to the United States now, down from an average of 1.6 million dozen/month in 2003.

#### Comment: Surprising Survival

[1](#)6. (SBU) The survival of the garment sector into 2005 defied expectations. The sustainability of this survival, however, is entirely dependent on outside factors -- namely the sanctions policy of the EU and the export policies of China and India. There is nothing afoot domestically to try and insure the industry against these vagaries. The garment factories, and all industrialists, suffer from a terrible business climate -- including worsening electricity problems

and a shortage of bank capital. They also continue to lament the lack of support from the GOB, despite the regime's regular propaganda about building up Burma's decrepit industrial base. End comment.  
Martinez